STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a Ameren Illinois	:	
	:	**Docket No. 13-0192**
Proposed General Increase in Gas Rates (Tariffs Filed January 25, 2013).	:	

REPLY BRIEF OF THE STAFF

OF THE ILLINOIS COMMERCE COMMISSION

(PUBLIC)

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(CONFIDENTIAL)

NOW COME the Staff witnesses of the Illinois Commerce Commission ("Staff"), by and through their undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission's Rules of Practice (83 Ill. Adm. Code 200.800), and the direction of the Administrative Law Judge ("ALJ"), respectfully submit their Reply Brief ("Staff RB") in the above-captioned matter.

I. INTRODUCTION

A. Overview

On January 25, 2013, the Ameren Illinois Company d/b/a Ameren Illinois (collectively, "Ameren," "AIC," or "Company") filed with the Illinois Commerce Commission ("Commission") revised tariff sheets in which they proposed a general increase in gas rates pursuant to Article IX of the Illinois Public Utilities Act ("Act" or "PUA"), 220 ILCS 5/9, to become effective March 11, 2013.

B. Procedural History

Initial Briefs ("IB") were filed on September 20, 2013 by the Illinois Competitive Energy Association ("ICEA") and the Retail Energy Supply Association ("RESA"); the Retail Gas Suppliers ("RGS"); the Illinois Industrial Energy Consumers ("IIEC"); the Citizens Utility Board ("CUB"); the People of the State of Illinois ("People"); Staff; and Ameren. Staff's IB identified and responded to many if not most of the arguments raised in Ameren's IB. In this Reply Brief, Staff has incorporated many of those responses by reference or citation to Staff's IB. However, in the interest of brevity, Staff has not raised and repeated every argument and response previously addressed in Staff's IB. Thus, any omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff's IB because further or additional comment is neither needed nor warranted.

C. Nature of AIC's Operations

D. Test Year

E. Legal Standard

II. RATE BASE

A. Resolved Issues

1. ADIT Bonus Depreciation

2. Budget Payment Plan Balances

3. Original Cost Determination

B. Contested Issues

1. ADIT – Step-up Basis Metro

Staff continues to support its recommended adjustment to ADIT related to the 2005 transfer of the Metro East assets as set forth in Staff's IB and continues below to address additional arguments brought forth by AIC in its IB.

AIC makes the unsubstantiated claim that it has provided evidence in the record to demonstrate that "the new ADIT on AIC's books exceeds the ADIT written off Union Electric's books". (AIC IB, 8.) AIC begins by asserting that "the record shows that the ADIT accrued on CIPS' books for the transferred assets since the transfer *dwarfs* the vintage ADIT from Union Electric." (Id.) (emphasis added). The evidence in the record, however, reflects a very different story. AIC did not and could not substantiate Ameren witness Mr. Stafford's reversal and dwarfing theory which was presented for the first time in his surrebuttal testimony. (Ameren Ex. 31.0, 18:368-373.) The record AIC claims is so replete with evidence on this issue merely contains the following: 1) a theoretical discussion with a non-factual example in Mr. Stafford's surrebuttal testimony that fails to demonstrate the post-transfer ADIT as actually dwarfing the pre-transfer ADIT (Id. at 17: 356-359, Aug. 27, 2013); and 2) an unsubstantiated assertion made by Mr. Stafford during cross examination regarding whether the actual amounts were reversed. (Id. at 17: 356-359; Tr. 346-347, Aug. 27, 2013.) It is interesting to note that since his surrebuttal testimony, where Mr. Stafford introduced his reversal and dwarfing theory as a possibility, Mr. Stafford inexplicably adopts this unsubstantiated theory as a certainty on the witness stand when he stated in reference to the alleged post-transfer ADIT increase that it "turns around, and I am saying it is more than turned around." (AIC IB, 9.) Contrary to AIC's attempt in its IB to characterize Mr. Stafford's unsupported claim as firmly established in the record, AIC offers no citations in its IB to any evidence in the record beyond Mr. Stafford's unsupported comments in surrebuttal testimony and cross examination. (Id. at 6-10) This unsubstantiated assertion lacks factual basis in the evidentiary record and should therefore be rejected.

When asked if there was a way to determine the current balance of ADIT related to the Metro East plant on Ameren Illinois' books, Mr. Stafford admitted "I could make an estimate, but it is just an estimate". (Tr. 353:11-12, Aug. 27, 2013.) This admission further highlights the lack of factual support for his reversal and dwarfing theory. Even when trying to advance his unsupported reversal and dwarfing theory, Mr. Stafford admitted that he could only estimate the effect and the amounts. (Id.) Later, in response to one of the AG's cross examination inquiries requesting mathematical evidence of the reversing and dwarfing theory advanced by AIC, Mr. Stafford further offered this comment: "We were asked data request from staff on that, and *we couldn't define that* because the assets on UE's books were not segregated." (Tr. 351:1-16, Aug. 27, 2013) (emphasis added).

AIC's IB also mischaracterizes the meaning of its witness' testimony in paraphrasing Mr. Stafford as stating that "[w]hile the nature of the problem makes precise calculation difficult, the evidence shows that AIC's books presently contain roughly $4 million of accumulated deferred taxes in rate base." (AIC IB, 8.) What AIC neglects to mention is that Mr. Stafford's complete answer on this issue contains an important qualification: "So while my number is based on *estimates*, you know, my *estimate* is that the rate base deduction with a transfer is 4 million compared to 1.3 million if the assets were still on EU's books *and still being used for Illinois jurisdictional rate base*." (Tr. 346, August 27, 2013) (emphasis added). As Mr. Stafford himself freely admitted, he did not (nor could he) calculate or provide the *actual* ADIT balance attributable to the Metro East assets (Tr. 351:1-16, Aug. 27, 2013) (emphasis added).

Notwithstanding that major shortcoming, AIC asks the Commission to be swayed by a single unsubstantiated statement in its IB that the balance of AIC's ADIT included in its rate base supports its reversal and dwarfing theory. This is not persuasive.

AIC does not substantiate its out of step windfall to ratepayers' argument. (AIC IB, 9.) In summary, AIC's argument supposes that the effect of ADIT has accrued since the transfer has reversed and is now reducing AIC's rate base. (AIC IB, 9) There are severe problems with this argument. First, AIC's only citation in support of its argument is to Mr. Stafford's surrebuttal testimony where he discusses that the ADIT is accrued going forward on CIPS' books (Id.), again without any demonstration of the currently accruing actual Metro East asset amounts on AIC's books. Since AIC is the party with the records for its ADIT, it should be able to produce the entries and the exact balances of the Metro East asset post-transfer ADIT to support its claim, rather than just theories and personal assertions. However, the record demonstrates that it did not.

Second, related to AIC's windfall argument, is AIC's claim that the record demonstrates that the ADIT impact of the Metro East transfer not only benefitted AIC ratepayers but also that it is "uncontroverted." (AIC IB, 7.) This allegation strains credulity. During cross-examination, Mr. Stafford admitted that Illinois ratepayers lost the benefit of the ADIT after the transfer when the net ADIT balance on the Metro East plant was initially set to zero. (AG IB, 12.) Even if the Commission were to accept the Company's claim that the transfer and recording of the Metro East asset transfer were to reverse at some point in the future, which has not been shown to the be case, as Mr. Stafford admitted on cross examination, "a dollar today is worth more than it will be …a year from now or two years from now." (Tr. 357:12-14, Aug. 27, 2013.) Thus, any future benefit that could occur will only partially offset the harm that has been done to ratepayers since the transaction.

AIC attempts to advance a new regulatory concept in its IB when it also states that the Commission has specifically approved the transfer and related accounting of the Metro East assets and suggests that the issue of ratemaking treatment for ADIT, therefore, is off the table in this proceeding. (AIC IB, 10.) Specifically, the Company states that "it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty. . ." (Id.) AIC misses the mark here. While the Commission approved the Metro East asset transfer in ICC Docket No. 03-0657, the notion that the Commission may not establish the rate treatment here is simply not true. (Central Illinois Public Service Company, Union Electric Company, ICC Docket No. 03-0657, 18 (Sept. 22, 2004). AIC's initial brief selectively cites the Commission's approval of the transfer which is correct but is irrelevant to the issue. Staff and AG are not contesting the approval of the transaction in Docket No. 03-0467, only the ratemaking effect that is included in rate base in the current case's test year. Not only was the approval made subject to conditions (Id.), no approval of ratemaking treatment for this issue was granted to apply to future rate cases. For the Commission to do so would be contradictory to its own Uniform System of Accounts ("USOA"). 83 Ill. Adm. Code 505. Section 505.210(B) of the Commission Rules states: "The Commission does not commit itself to the approval or acceptance of any item set out in any account, for the purpose of fixing rates or in determining other matters before the Commission." (83 Ill. Adm. Code 505.210(B)). AIC also makes the assertion that Staff and AG are incorrect in stating that the Commission has not had the opportunity in the last two AIC electric formula rate proceedings to fully address the propriety of the increase to the asset value between affiliates. (Id.) As Staff has correctly pointed out on the record, in this case, there is more evidence of the ratemaking effect of the transfer than in the previous two cases. (Staff Ex. 10.0 (Rev.), 20:340-349.) One significant piece of evidence is AIC's response to Staff DR MHE 10.01 (Id., Attach. A), which asked the Company: 1) to agree or disagree with the table Staff provided in the data request that showed the ratemaking effect of the Metro East transfer (*i.e*., the resulting higher rate base for CIPS); and 2) for each component in the table with which AIC disagreed, to provide a revised version of the table with an explanation of why a revision was necessary. AIC's response indicated agreement with all the ratemaking effect components listed on the table provided by Staff and further, offered no additional refinements to the table. (Id.) That information was not elicited during either of the two prior formula rate cases which AIC now claims are definitive on this issue. To be clear, AIC argued in Docket No. 12-0293 that the Metro East transfer had a zero effect on its rate base, an argument which now has been shown to be incorrect. Ameren Illinois Company, ICC Order, Docket No. 12-0293, 30 (December 5, 2012). This additional evidence supports a conclusion accepting Staff and the AG's adjustments.

2. Pension/OPEB Expense – Employee Benefits Adjustment

This issue includes both rate base and operating expense adjustments and is discussed below in Section III.B.1 of Staff's RB.

3. Non-Union Wages

This issue includes both rate base and operating expense adjustments and is discussed below in Section III.B.2 of Staff's RB.

4. Cash Working Capital

i. Pass-Through Taxes Lead Days

Staff recommends that the Commission use greater lead days than used by AIC for pass-through taxes; Energy Assistance Charges ("EAC"), Illinois Gas Use and Gas Revenue Tax ("GAS TAX") and Municipal Utility Tax ("MUT"). (Staff IB, 5.) Staff's cash working capital ("CWC") calculation differs from AIC's in that Staff uses AIC's calculation of lead days based on when pass-through taxes are required to be remitted (Staff IB, 5-6.), while AIC calculates lead days based on when AIC bills for services. (Id. at 6.) AIC's practice of remitting pass-through taxes earlier than required increases rate base by increasing CWC. (Id.) Ratepayers should not be penalized solely because of AIC's practice of remitting pass-through taxes earlier than they are due. (Id.)

AIC claims that the expense leads recommended by Staff witness Mr. Kahle and AG/CUB witness Mr. Brosch are not based on reality. (AIC IB, 11.) This is a curious statement since the lead days proposed by Staff and interveners were calculated by AIC in its own workpapers supporting its CWC calculation. (Staff Ex. 2.0, 5:97-106; 7:136-147; Staff Ex. 11.0 (Rev.), 10:191-196.)

AIC's claim that Staff's proposal will likely lead AIC to institute changes in its practices to comport with Staff's interpretation of the remittance instructions is misleading. (AIC IB, 12.) First, the recommendations are not based on an interpretation of the remittance instructions. Staff's proposals are based on the plain language of the instructions. (Staff Ex. 11.0 (Rev.), 5:89-94.) Second, Staff's proposal is for rate making purposes only. If the Commission adopts Staff's proposal, AIC would not need to alter its remittance practices. (Staff IB, 7.) AIC chose its current practice for its own reasons whether that be cost, convenience or some other reason. Whatever the reason, AIC can continue to enjoy the benefits of its decision, but it should not expect ratepayers to foot the bill.

AIC contends that it would be required to make systems related changes prior to implementing any such modifications in the remittance schedule which could take substantial time and expense. (AIC IB, 12.) AIC is free to make such changes if it wishes; however, these changes would benefit only AIC and should not be passed on to ratepayers.

C. Recommended Rate Base

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Outside Professional Services

Staff and the Company are in agreement on this issue and included identical adjustments in their IBs. (Staff IB, 7-8; AIC IB, 13-14.)

2. Uncollectible Accounts Expense for Rider GUA

Staff and the Company are in agreement on the following language to establish the level of uncollectible accounts expense in Rider GUA – Gas Uncollectible Adjustment to be included in the Final Order:

> (x) It is further ordered that the uncollectibles expense included in base rates for AIC is $yyy for Rate Zone I, $yyy for Rate Zone II, and $yyy for Rate Zone III.

(Staff IB, 8; AIC IB, 14.)

Further, Staff and the Company are in agreement on the Company's proposal to implement a uniform uncollectible factor for purposes of administering Rider GUA going forward. (Staff IB, 8.)

3. Lobbying Expense

4. Adjustment to Office Supplies Expense

5. Payments to Surviving Spouse of IP Employee

6. Industry Dues Expense

B. Contested Issues

1. Pension/OPEB Expense - Employee Benefits Adjustment

AIC has reflected this adjustment in its revenue requirement in the interest of narrowing issues in this case. (AIC IB, 18.) For the purposes of this proceeding, Staff considers the issue resolved.

2. Non-Union Wages

The Commission should reject AIC's proposed 3.93% increase in non-union wages (AIC IB, 22.) and use Staff's proposed rate of 3.69% . Staff's proposed rate of increase holds AIC's forecasted level of non-union wages to a more reasonable amount. (Staff IB, 11.) Staff agreed with the Company that it would be appropriate to use a rate of 3.69% to calculate the increase in non-union wages through a response to a data request received from AIC. (AIC Cross Exhibit 5.)

AIC now, in its surrebuttal, asks for a non-union wage increase of 3.93% (Ameren Ex. 42.0, 5:101-108) instead of the 3.69% increase it initially proposed to Staff. (AIC IB, 18-19.) Staff had the opportunity to analyze the rate of 3.69% previously presented by AIC and agreed to that rate. The rate of 3.93%, however, was not offered in a timely manner that would provide Staff with the opportunity to analyze AIC's calculations and, therefore, should be rejected by the Commission.

3. Forecasted Labor Expenses

The Commission should accept AIC's proposals intended to correct deficiencies and lack of documentation of the Company's forecasting process.

AG/CUB witness Michael L. Brosch proposed an adjustment to the Company's forecasted labor expenses. (AG/CUB Ex. 1.0, 16-21:342-505.) Mr. Brosch, however, did not identify any specific activities that he considers to be unnecessary for the Company to perform; therefore, he does not associate any of the Company's proposed increases in gas only positions with unnecessary activities. Due to that lack of specifics, Staff did not agree with Mr. Brosch's adjustment. (Staff IB, 12.)

Mr. Brosch testified extensively on deficiencies in the Company's responses to AG/CUB data requests, and described a lack of documentation of the Company's forecasting process. (AG/CUB Ex. 1.0, 17-19:378-446.) Staff disagreed with AIC's position that the forecast does not need to be supported with workpapers to document projected costs. (Staff IB, 12.)

AIC committed to make information on its forecasted gas labor and non-labor expenses in connection with future gas delivery rate proceedings in which AIC uses a future test year available for Staff's review including Gas only headcount - actual vs. monthly projections through the test year and Gas O&M forecasted test year expenses by FERC account and resource type. (Ameren Ex. 32.0, 8:158-166.) AIC also committed to take additional steps in the preparation of future gas forecasts to make more transparent underlying assumptions and inputs for its forecasted labor and non-labor expenses including a comparison of the most recent calendar year of actual gas O&M expenses with forecasted test year expenses; written explanations and justifications of significant variances in excess of escalation factors – by resource group within a resource management center or roll-up department; and gas-only headcount staffing forecast with justification of any new employee positions projected to be filled between the filing of AIC's direct case and the end of the test year. (Id. at 8:167-180.) The Commission should reject the adjustments proposed by Mr. Brosch but include in the Final Order language similar to the following regarding the Company's forecasting documentation:

> Based on the extensive testimony by Mr. Brosch, it is evident to the Commission that the Company's forecast documentation was not as complete or as easy to comprehend as it should have been. The Commission also recognizes the Company's commitment to improve its documentation in the future. The Commission does not adopt the proposed adjustments to forecasted labor costs and expects that the Company will make the improvements as indicated.

4. Forecasted Non-Labor Expenses

Staff maintains its position that the Commission should reduce the Company's forecasted Corrosion Control expenses by $300,000. (Staff IB, 13.)

AG/CUB witness Michael L. Brosch proposed adjustments to the Company's forecasted non-labor expenses. In particular, Mr. Brosch proposed an adjustment to Corrosion Control to reflect an amount consistent with AIC's historical spending levels. Mr. Brosch revised his adjustment in rebuttal. (AG/CUB Ex. 5.0,44:1096-1102; AG/CUB Ex. 5.1, 2:7) Staff witness Kahle analyzed Mr. Brosch's proposed adjustment to Corrosion Control and adopted Mr. Brosch's revised adjustment. (Staff IB, 13.)

As Mr. Brosch points out, AIC's history of expenditures for Corrosion Control does not support its forecast. (AG/CUB IB, 31-32.) For further proof, during this proceeding, AIC reduced its 2013 budget for "Group 1" painting by $100,000, or 20%, from $500,000 to $400,000; or a 15% overall decrease of the total budget of $663,000 for both groups. (Staff Cross Ex. 2, 6-7.) AIC's 2013 performance further proves Mr. Brosch's assertion that the Company forecast is overstated. Therefore, The Commission should adopt Mr. Brosch's adjustment to reduce the Company forecast for Corrosion Control by $300,000.

5. Rate Case Expense

Staff maintains its position on this issue, and continues to recommend that the Commission approve Staff's adjustment to reflect a reasonable amount of rate case expense, $2.209 million, to prepare and litigate the current rate case filing. (Staff IB, 13-16.) The sole point of disagreement between the Company and Staff is Staff's disallowance of AIC's unsupported estimated costs of rebuttal witnesses. (Ameren IB, 42.) The Company's estimated cost for services of outside consultants retained as rebuttal witnesses was based on costs incurred for multiple consultants as rebuttal witnesses in Docket No. 12-0001, the Company's initial formula rate case. (Staff Ex. 3.0, 3:44-46.) Staff's adjustment removes the estimated and unsupported costs of such rebuttal witnesses to reflect a reasonable amount for the Company's estimated costs of services for one rebuttal consultant regarding cash working capital issues. (Staff IB, 14.)

Although the Company admitted in a DR response that it had engaged one rebuttal witness up to that point in time and did not revise that response throughout the discovery phase (Staff Ex. 12.0, Attach. A), AIC claims that it should anticipate the services of additional consultants through the late stages of a rate case because one Staff witness might file supplemental rebuttal testimony. (Ameren IB, 43.) AIC's rationale may explain why the original estimate contemplates additional witnesses post rebuttal, but it does not explain why the Company does not agree to remove estimated costs related to rebuttal witnesses that it now knows were not incurred because such rebuttal witnesses were unnecessary. No Staff witness filed supplemental rebuttal testimony, nor did the Company identify the need for any additional consultants in its surrebuttal testimony. (Ameren Ex. 31.0.)

The Company mistakenly relies upon the Commission Order in Docket No. 11-0767, whereby the Commission did not accept a similar Staff adjustment for the unsupported estimated costs of rebuttal witnesses. The Commission's conclusion in Docket No. 11-0767 reads, in pertinent part:

> In its rebuttal schedule, Staff limited IAWC's to those consultants engaged at the time of the Company's rebuttal filing. No testimony was presented in support of this adjustment, and no explanation was provided in the rebuttal schedule or in Staff's Initial Brief.
>
> IAWC provided the reasons for including these amounts in its testimony and Initial Brief.
>
> The Commission notes that no exceptions were filed with respect to this issue.
>
> The Commission finds that the Staff adjustment is not supported by the evidentiary record and will not be adopted.

Illinois-American Water Co., ICC Order Docket No. 11-0767, 53 (Sept. 19, 2012) ("11-0767 Order").

Contrary to the situation described in the above quoted order, the record in this proceeding contains ample evidence of the necessity of Staff's adjustment. As documented in this proceeding's evidentiary record, Staff's adjustment is supported by testimony, AIC responses to Staff DRs and is fully discussed in Staff's IB. (Staff IB, 13-16, App. D) The Company's reliance on the above Commission conclusion is misleading and not applicable to the facts in this proceeding because the record in this case contains evidence of the inaccuracy of AIC's estimate. Therefore, the Commission should accept Staff's recommendation to disallow the unsupported estimated costs of rebuttal witnesses.

6. Charitable Contributions

AIC mischaracterizes Staff's position on this issue and draws incorrect and misleading conclusions despite evidence in the record to the contrary. Staff supported its position regarding charitable contributions in its IB and will not repeat that discussion here. (Staff IB, 16-21.) Nonetheless, it is important to point out the numerous inaccuracies set forth in AIC's IB.

First, AIC states that projected expenses should not be determined by application of an inflation factor to historical amounts. (AIC IB, 44.) In making this argument, AIC mischaracterizes Staff's adjustment as a simple application of an inflation factor to historical amounts (Id.) AIC further argues that Staff's adjustment was made without consideration of: 1) context (Id. at 44.), 2), economic conditions (Id. at 47, 3) prior approved amounts for AIC (Id. at 46.), 4) amounts approved for recovery by other utilities in different proceedings (Id. at 46, 48.), 5) "realigning" of budgeted amounts (Id. at 45, 46.); and of 6) ignoring AIC's renewed commitment, plans, expectations, efforts, intentions for its future generosity (Id. at 47- 48.). None of these claims are true and all are misleading. Staff discredited each of these AIC arguments in its IB. (Staff IB, 16-21.)

Second, AIC improperly attributes certain flaws to Staff's analysis. Again, these alleged flaws mischaracterize Staff's position and were discredited by Staff in its IB. (Id.) AIC now argues in its IB that each of the three years chosen by Staff for its representative period are "outliers". (AIC IB, 45.) This is simply not true. As Staff demonstrated in testimony, none of the total company actual contributions in the three most recent time periods that comprise the three-year average Staff proposed to use is an outlier. (Staff Ex. 10.0 (Rev.) 14: 224-231.)

Further, AIC's use of the description "outlier" does not comport with the generally accepted industry meaning of the term. An outlier generally connotes a value that deviates abnormally from other values in a random population sample. As such, in order to determine whether a value is an outlier, one must first determine what characterizes a normal value. In this respect, AIC's labeling of each of the three year amounts as "outliers" fails on two counts. First, AIC is incorrect in labeling Staff's use of three years of total company actual amounts as outliers since the term "outlier" is used primarily in statistical sampling of a population. In this case, however, Staff uses the population of total company amounts for each of three years selected for the average. (Staff Ex. 10.0 (Rev.) 14: 224-231.) Second, there is no statistical sample involved in Staff's analysis of the charitable contributions; the amounts reviewed and used comprise the population for each of the three years selected and all of the amounts analyzed comprise the population of each year. (Id.) Staff has demonstrated that AIC has planned and continues to plan to contribute to charitable organizations; however, its history of actual contributions demonstrates that its plans do not always come to fruition.(Id. at 12:183-190.)

AIC attempts to make the case that Staff ignored the other prior years analyzed but Staff disproved this argument during cross examination. (Tr. 252:4, Aug. 27, 2013.)

For all of the reasons stated in Staff's IB and above, the Commission should adopt Staff's proposed reduction to AIC's 2014 projected level of charitable contributions.

7. Forecasted Advertising Expenses

AIC disagrees with Staff's adjustment to advertising expense except for the removal of $72,720 paid to Strategic International Group ("SIG"). (Ameren IB, App. D, 2.) At issue is whether or not historical advertising expenses, escalated for inflation factors, are a reasonable basis for predicting future advertising expenditures. The Company asserts that planned 2014 gas advertising initiatives must be considered, although AIC witness Kennedy provided little more than a bullet list of activities with brief descriptions of programs that add up to over $800,000 of *incremental* spending. These programs include Contractor Communications; First Responder Training; Call Before You Dig; Pipeline Awareness mailer; Pipeline Awareness Communication for Municipal Leaders; Pipeline Awareness Communication for School Leaders; and Gas Pipeline Safety Training for Excavators. (Ameren IB, 54-55.) AIC failed to explain, however, *why* the planned 2014 advertising initiatives cited by Mr. Kennedy are reasonable and necessary as an *incremental increase* to AIC's average budget of $1,048,038 during the years 2009-2012. (Staff Ex. 4.0 Attach. A, line 9.)

AIC claims that Staff's and AG/CUB's proposed adjustments to advertising expense are based on actual spending that does not accurately depict future activities. (Ameren IB, 51.) AIC would rather have the Commission believe that the Company's plans are a better indicator of its future advertising expenses even though it has been established in the record that AIC's budgeted amounts for planned advertising activities may significantly exceed the actual amounts it spends for advertising. A prime example is AIC's advertising budget for the fiscal year ended December 31, 2012. Notably, AIC elected *not* to spend its entire fourth quarter advertising budget (Ameren Ex. 21.0 (Rev.), 25:502-503.), a circumstance that AIC called "irrelevant to AIC's budgeted spend in 2014". (AIC IB, 56.)

Staff strongly disagrees that this fact is "irrelevant" because the two reasons given by the Company for this large advertising spending reduction were either foreseeable events or under the Company's direct control: the 2012 presidential campaign and the selection by AIC of a new advertising agency. (AIC IB, 56.) If these known events were not reflected in the 2012 budget (and Staff asserts that the impact of such known events should have been reflected), it is absolutely relevant to Staff's assertion that the 2014 forecasted advertising budget may be similarly flawed. The Company's 2014 budgeted advertising expense of $1,757,000 (Staff Ex. 4.0 Attach. A, line 7(d)) well exceeds both the Company's actual 2012 advertising expense of $1,243,000 (Staff Ex. 4.0 Attach. A, line 7(f)) and its four-year (2009-2012) actual average advertising expense of $1,048,000. (Staff Ex. 4.0, Attach. A, line 9.) These facts underscore Staff's assertion that the 2014 forecasted advertising expense is unnecessarily inflated and highly discretionary. (Staff IB, 22.)

AIC mischaracterizes Staff's position as one in which no incremental advertising spending planned for the test year can be justified as prudent and reasonable if the forecasted amount exceeds historical spending. (Ameren IB, 52.) By mischaracterizing Staff's position in this manner, AIC attempts to transfer its burden of proof to Staff. AIC would have the Commission approve a significantly higher budget for the test year--68% greater than the four-year average of actual spending levels (Staff Ex. 4.0, 6:131-133) unless Staff can prove that the incremental amounts **will not** be spent on advertising in 2014. This is an impossible standard and an artificial burden created by AIC to obtain approval for an unsubstantiated and highly discretionary test year advertising budget. As noted by Staff, if AIC were to curtail its 2014 advertising efforts as it just did in 2012, all else being equal, the bottom line would improve to the benefit of AIC and its parent, Ameren Corporation, but to the detriment of ratepayers. (Staff IB, 23.)

For all these reasons, Staff urges the Commission to reduce the 2014 AIC advertising expense budget to Staff's reasonable estimate which is based on prior levels of actual advertising spending, escalated for inflation.

8. Sponsorship Expense

In conjunction with Staff's adjustment to reduce 2014 advertising expense, Staff proposes to disallow approximately $74,000 of costs associated with corporate sponsorships. (Staff IB, 21.) The Company has stated "the overriding consideration, when weighing the recoverability of a sponsorship, should be whether the funds provided to the recipient organization resulted in benefits to ratepayers in AIC's service territory." (AIC IB, 59.) Staff disagrees. Rather, the relevant criterion should be whether such sponsorships are statutorily impermissible promotional or goodwill advertising. Sec. 9-225(2) of the Act prohibits, among other categories of spending, promotional and goodwill advertising expenditures from being recovered through rates. The sponsorships at issue include: dues and donation for Halloween candy to the Beardstown Chamber of Commerce; Festival of Lights whale float for the City of East Peoria; and hockey team Thanksgiving 5K Run for Belleville High School. (Staff Ex. 13.0, 9.) The Company's sponsorship of these events appears to be primarily intended to bring its name before the public to improve its image, i.e., goodwill or institutional advertising expenditures that are specifically precluded from recovery by Sec. 9-225(2) of the Act. Accordingly, the Commission should adopt Staff's adjustment to reduce forecasted advertising expense for the 2014 test year, including removal of sponsorships.

9. Credit Card Expenses

Staff proposes to remove from the Company's test year forecast $12,000 of unnecessary and non-recoverable charges made by Ameren employees using Ameren Company credit cards (formerly referred to as P-cards) (Staff IB, 23.) Staff's adjustment disallowed expenses for employee snacks, meals, parties, decorations and promotional items such as cups, coasters, pens and shirts displaying the company logo. Additionally, Ms. Pearce disallowed charges for certain electronic items including flat screen televisions, digital cameras, cellular phones and accessories, Blackberry® devices, and finance charges for cash advances on the Ameren credit card. (Id.)

AIC claims that the disputed charges are reasonable in amount, prudently incurred and legitimate for utility purposes (AIC IB, 67), but this is only true if one accepts the Company's standard that these items are "work-related." (AIC IB, 67.) In response to Staff's contention that the charges should be necessary for the provision of utility service or that the charges should provide ratepayer benefit—AIC claims the charges meet both criteria. (AIC IB, 67.) Staff strongly disagrees with AIC's contention that charges for these items "relate to education and training intended to reduce employee injuries and property damage claims, and therefore lower ratepayer costs." (AIC IB, 68.) In the case of charges for flat screen televisions and satellite television service at various operation centers, AIC contends these expenses "benefit customers by ensuring AIC employees meet customer expectations in the event of storm outages." (Id. at 67.) It is unclear exactly how AIC employees "meet customer expectations in the event of storm outages" by watching the same weather information that is broadcast free to the public through the internet, radio and local TV stations as it happens. It is equally unclear why AIC's system that is used to dispatch field personnel during normal work operations is not the primary means of communicating pertinent storm outage information to necessary personnel, instead of satellite television weather reports on flat screen TVs, as part of AIC's storm preparedness and response efforts (Id.)

During cross examination, Staff witness Pearce was asked to hypothetically assume a lineman was given a work cell phone for storm response activity and whether that lineman would be less effective in his job if he was not allowed to have a work-issued cell phone. (Tr. 233:4-15, Aug. 27, 2013.) This hypothetical scenario posed by AIC raises questions regarding the purpose and work-related use of the cell phones purchased with AIC credit cards. Given that AIC's current communication system allows it to already communicate with and dispatch employees to needed areas during normal work operations and during emergencies, it is unclear why employees need to have cell phones supplied by the Company. Assuming it was truly necessary for AIC's storm preparedness to have such cellular phones, and Staff does not concede that it is, it is reasonable to expect the Company to have provided such phones through a Company-wide contract obtained through a normal purchasing function. Such action would ensure that every employee who needs a cellular phone to do their jobs would have the cellular phone: in a timely manner, at a Company-approved cost, through an appropriate vendor, and with the necessary features. The Company, however, has not done this reasonable action. Staff believes these costs are duplicative and therefore, excessive, unnecessary for the provision of delivery service, do not provide ratepayer benefit, and constitute an employee perquisite. (Staff Ex. 13.0, Attach. B)

AIC asserts that Staff has failed to address the adequacy of AIC's business justifications or the resulting ratepayer benefits, instead focusing on whether the disputed charges are similar to those disallowed in Docket No. 12-0293 (AIC IB, 68.) This assertion is patently false, as evidenced by Staff Ex. 9.0, Sch. 9.01, 2, which contains a listing of each disputed charge and the reasons for Staff's disallowance. These reasons are reflected in Ms. Pearce's analysis for each of the disputed charges that fell into one or more of the following categories:

i) Unnecessary for the provision of utility service;

ii) Does not provide benefit to ratepayers; may simply benefit AIC employees;

iii) Is not a prudent and reasonable business expense according to the standards identified in Docket No. 12-0293 for regulated monopoly businesses whose captive customers have no choice but to purchase electric delivery service from AIC. (Staff IB, 24.)

AIC complains that Staff did not provide a rationale or standard for each of the disputed charges. Staff contends, however, the standard has already been established by the Act, as cited by Ms. Pearce in her testimony. Specifically, Ms. Pearce asserted (Staff Ex. 13.0, 17:388-396.) that all costs should be just and reasonable pursuant to Section 9-101 of the Act:

> All rates or other charges made, demanded or received by any product or commodity furnished or to be furnished or for any service rendered or to be rendered shall be *just and reasonable*. Every unjust or unreasonable charge made, demanded or received for such product or commodity or service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable.

220 ILCS 5/9-101 (emphasis added).

Staff provided a summary of categories that include most of the disputed charges (Staff IB, 23.) and the reasons the charges do not qualify for rate recoverability under the Act. Staff maintains its contention that the disputed charges should be disallowed on the basis that they fall into one or more of the three categories above. Moreover, the contested charges are not just and reasonable for the provision of delivery service in the context of the types of expenses that should be recovered from ratepayers by a regulated monopoly business, therefore, those costs fall outside Section 9-101 and should be disallowed. To the extent AIC disagrees with the standards cited by Ms. Pearce, the Company disagrees with the application of the standards established by the Act. Staff urges the Commission to support Staff's disallowance of these charges.

10. Non-Residential Revenues Adjustment

11. Software Rental Revenues

In its IB, AIC indicates that AIC accepted Staff witness Pearce's adjustment to reflect $358,000 of rental income for the use of the Enterprise Asset Management System ("EAMS") by Ameren Missouri in its surrebuttal testimony. (Ameren Exs. 31.1-31.3.; AIC IB, 75-76.)

However, AIC's IB does not address the increase of $491,000 in EAMS project-related operating and maintenance expenses that was proposed in its surrebuttal testimony without support. (Ameren Ex. 31.5.) The contested adjustment between Staff and the Company is limited to the Company's $491,000 proposal to increase operating and maintenance expense for this project. Staff strongly recommends that the Commission reject the Company's adjustment to increase by $491,000 the 2014 forecasted cost of EAMS/MWMS because Company witness Mr. Stafford provided no rationale and no calculations to support these additional costs. (Staff IB, 27.) In fact, there is no basis for these additional costs other than to offset Staff and AG/CUB adjustments that reduce the revenue requirement for employee benefits expense. (Id. at 28.)

AG witness Brosch also proposed an adjustment to recognize rental revenue of $452,000 (calculated as 13.53 percent of the $3,338,000 investment to be supported by Ameren Missouri (AG/CUB IB, 45.). Mr. Brosch believes this amount of revenue is a more appropriate measure of the revenue that should be reflected in the 2014 test year revenue requirement than the $358,000 amount used by Staff and accepted by AIC, which was based on the amount of test year amortization expense related to the EAMS/MWMS projects. (AG IB, 45.) Staff agrees with AG witness Brosch that it is appropriate to remove the costs of EAMS and MWMS that will not provide service to

Illinois jurisdictional ratepayers. (Id. at 46.) Therefore, Staff would not oppose the AG's $452,000 rental revenue adjustment as an alternative to Staff's proposed $358,000 adjustment, should the Commission find Mr. Brosch's methodology more appropriate.

12. Other Operating Revenues

C. Recommended Operating Income / Revenue Requirement

IV. Cost of Capital and Rate of Return

A. Resolved Issues

1. Remaining CWIP accruing AFUDC Adjustments

2. Preferred Stock Balance

According to AIC, no party recommended an adjustment to AIC's preferred stock balance. (AIC IB, 76.) To the contrary, Staff's proposed remaining CWIP accruing AFUDC adjustment, which is not contested, should also be applied to the Company's preferred stock balance, as noted in Staff's IB. (Staff IB, 32.)

3. Embedded Cost of Preferred Stock

B. Contested Issues

1. Short-Term Debt Balance

Staff continues to recommend its proposed short-term debt balance of $10,995,015, which reflects Staff's proposed rate increase rather than the Company's proposed rate increase. (Staff IB, 33.)

2. Long-Term Debt Balance

AIC addresses the issue of the redemption cost associated with the 2012 refinancing of AmerenIP's legacy 9.75% bonds in Section IV.B.2. of its IB, Long-Term Debt Balance, whereas Staff addresses the same issue in Section IV.B.5. of its IB, Embedded Cost of Long-Term Debt. (AIC IB, 77-83; Staff IB, 37-39.) To assist the ALJ and the Commission, Staff now addresses this issue in Section IV.B.2.

AIC states:

> AIC's position is premised on the prudency of the transaction; Staff's on a misapplication of Commission precedent… Staff recommends that the Commission disallow 57.41% of the premiums paid by AIC to redeem the 9.75% bonds, which equates to zero recovery on the first $50 million of the $87.1 million of bonds redeemed. Staff bases its proposal on the Commission's orders in AIC's last two gas rate cases: Dockets 09-0306, et al. (cons.) and 11-0282. The issues and facts in those cases, however, are different from those at bar.

(AIC IB, 78-79.) AIC argues further that the merger of the legacy companies (i.e., AmerenIP, AmerenCIPS and AmerenCILCO) negates any cross-subsidization concern. (Id. at 80.)

The Company errs when it describes the Commission's concern with the original disallowance of $50 million 9.75% bonds as a cross-subsidization issue between AmerenIP and AmerenCIPS. (Id.) This argument is meritless on two levels. First, the Commission never described the $50 million in excess 9.75% bonds as a cross subsidization issue; rather, it framed its concern more as a prudence issue (i.e., Did AmerenIP issue more long-term debt than was required?):

> The Commission notes that Staff recommends a long-term debt balance for AmerenIP of $1,307,983,675; approximately $50 million less than that recommended by AmerenIP, to reflect what Staff believes was excessive borrowing by AmerenIP to repay borrowing under bank facilities and the money pool. AmerenIP argues it was necessary to borrow $400 million because this was the amount of short-term debt outstanding at the time of the long-term borrowing.
>
> It appears to the Commission that AmerenIP issued more long-term debt than required for AmerenIP's utility operations, especially at a time when AmerenCIPS was relying on low cost money pool funds, contributed in part by AmerenIP, rather than resorting to the issuance of costly long-term debt. The Commission agrees with Staff that AmerenIP's proposal would unnecessarily burden ratepayers with $50 million in excess debt at

> a relatively high interest rate of 9.75%. The Commission will, therefore, adopt Staff's proposed long-term debt balance for AmerenIP for the purposes of this proceeding.

Central Illinois Light Co. d/b/a AmerenCILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a Ameren IP, ICC Order Docket Nos. 09-0306 et al. (Cons.), 143 (April 29, 2010) ("09-0306 Order") (emphasis added).

By using the word "especially," (rather than "given", "since" or "because") the Commission's Order indicates that while AmerenIP's loan to AmerenCIPS was the more important reason the Commission disallowed $50 million of long-term debt that AmerenIP did not require for utility operations, it was not the only reason. Although AmerenIP's loan to AmerenCIPS contributed to the former's $400 million balance of short-term debt, as noted in the Commission Order, AmerenIP could have reduced its $400 million long-term debt borrowing to $350 million had it not inexplicably taken a short-term $60 million loan from Ameren Corp. only to repay it two days later, the proceeds of which AmerenIP never used. 09-0306 Order at 142. Thus, the language in the Commission's Order referring to the AmerenIP to AmerenCIPS loan is not exclusionary.

On the second level, even if one were to wrongly interpret the disallowance of $50 million of the 9.75% bond issue as arising wholly from an improper cross-subsidization of AmerenCIPS, the ratemaking consequences of such cross-subsidization did not vanish with the merger of AmerenIP and AmerenCIPS. That is, the October 2010 merger of the Ameren Illinois utilities has no bearing on the disallowance in question because prudence determinations are based on the facts and circumstances at the time of the transaction in question and the consequences of the disallowed costs, not on subsequent events. (Staff Ex. 14.0C, 12:206-209.) Thus, the

Company's proposal is akin to a utility asking to recover the cost of demolishing plant that the Commission previously disallowed from rate base because such plant was not required for providing utility service. In summary, the Company's proposal would contravene the Commission's prior determination that AIC improperly issued $50 million more of long-term debt than required for its utility operations. (Id. at 12:212-219.)

Moreover, in Docket No. 11-0282, AIC argued that AmerenIP's actions were prudent during 2008 given the circumstances in the financial markets at that time, Staff's adjustment was based on hindsight and, consequently, unfair, and cross-subsidy concerns are no longer valid given the merger of AmerenIP and AmerenCIPS in 2010. Ameren Illinois Co., ICC Order Docket No. 11-0282, 64-65 (Jan. 10, 2012) ("11-0282 Order"). The Commission's Order in that case rejected those arguments by the Company and concluded as follows:

> The facts here are exactly the same and the Commission believes the results should be the same. The legal standard that apparently eludes AIC was previously stated. AIC's actions, if not adjusted in the ratemaking process, would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. Under the Act, AIC is allowed to recover from ratepayers a reasonable cost of capital but if allowed to pass on the cost associated with $50 million of relatively high cost debt that was not needed, the Commission finds that AmerenIP would effectively recover from ratepayers an excessive cost of capital.
>
> In other words, if the Commission failed to make the adjustment proposed by Staff, ratepayers would be burdened with an unreasonable cost of capital. It appears to the Commission that while the mathematical calculation proposed by Staff in this case is different from that adopted in AIC's previous case, the result is the same. The Commission finds that Staff's proposed adjustment for the 2008 AmerenIP debt issuance is reasonable and leads to a cost of long-term debt that is reasonable and should be adopted for purposes of this proceeding.

11-0282 Order at 75-76.

AIC also argues Staff's adjustment in this case is "grossly disproportionate" from the adjustment in Docket No. 11-0282 because in that case, the Commission assigned a 7.39% cost to $50 million of the 9.75% bonds, which AIC equates to a 3% disallowance of the total cost of the 9.75% debt. AIC compares this percentage to the annual revenue requirement impact of approximately $1 million resulting from Staff's proposed adjustment in this case. (AIC IB, 82-83.) There are two problems with AIC's argument. First, AIC never explains the calculation for its estimate of an annual revenue requirement impact. Second, AIC errs by making an improper "apples to oranges" comparison of the revenue requirement effect, in dollars, of Staff's proposed disallowance in the instant case versus the percentage effect of the interest expense disallowance in Docket No. 11-0282. Consequently, this argument should not be given any weight. Nevertheless, as explained below, if the Commission applied the same type of adjustment in this case as it did in Docket No. 11-0282, the dollar effect would be greater in this case due to the lower embedded cost of debt for 2014.

In Docket No. 11-0282, Staff recommended assigning $350 million of the $400 million bonds the actual interest rate of 9.75% and $50 million of the $400 million bonds an interest rate that equaled the embedded cost of long-term debt because "removing $50 million in 9.75% bonds from AIC's long-term debt for the purpose of calculating the long-term debt balance would have the perverse result of a disallowance that increased AIC's ROR on rate base due to a shift in capital structure weights from lower cost debt to higher cost common equity." 11-0282 Order at 70.[1] Thus, in Docket No. 11-0282,

[1] This adjustment was necessary because in Docket No. 11-0282, Staff did not propose to remove a $58 million common equity infusion that Staff proposed removing in the previous rate case, Docket Nos. 09-0306 et al. (Cons.). 09-0306 Order at 145-146.

the Commission effectively reduced the interest rate on $50 million of the 9.75% bonds to 7.39%. This results in a disallowance of $1.18 million of interest expense (i.e., 9.75% - 7.39% = 2.36% × $50 million = $1.18 million). A similar disallowance in this case would result in $1.735 million in disallowed interest expense (i.e., 9.75% - 6.28% = 3.47% × $50 million = $1.735 million.) In contrast, in Docket No. 09-0306 et al. (Cons.), the Commission effectively disallowed interest expense totaling $4.875 million (i.e., 9.75% × $50 million). 09-0306 Order at 143. In summary, the Commission has authorized a range of disallowances depending upon the adjustment required to effectuate removal of $50 million, 9.75% bonds not required for utility operations in previous cases. Importantly, in this case, AIC chose the path that led to a greater adjustment than would have occurred had it assigned $50 million of 9.75% bonds an interest rate equal to the Company's average 2014 embedded cost of long-term debt (i.e., by attempting to recover from ratepayers redemption costs associated with $50 million 9.75% bonds that had been previously disallowed). (Staff IB, 38-39.)

AIC speculates that, "even if AmerenCIPS had paid back the $50 million loan in 2008 and replaced it with its own long-term debt, AIC likely would have redeemed that debt in 2012 as well, given the new rate of 2.70%, which is much lower than the relatively high interest rates experienced during the 2008 credit crisis." (AIC IB, 82.) When asked to specify how AmerenCIPS would have raised capital in lieu of borrowing from AmerenIP during October 2008, Mr. Martin states, "I can't comment with any degree of certainty or specificity as to what AmerenCIPS would have done in 2008 if AmerenIP had not loaned AmerenCIPS $50 million. Perhaps AmerenCIPS would have borrowed $50 million from its credit facility in October 2008 and then eventually issued

$50 million in long-term debt." (Staff Cross Ex. 6.) In other words, AIC does not even know how CIPS would have replaced the loan from AmerenIP, let alone the interest rate, maturity date and the terms for redeeming this hypothetical debt issue before its maturity date.[2] Yet, the feasibility, and cost, of redeeming that hypothetical debt before its maturity debt would depend on its terms. As Mr. Martin acknowledged, "[t]here are many factors that affect which issues AIC chooses to redeem if any. These factors include, but are not limited to: bond coupon rate, bond structure and maturity date, bond ownership profile, current interest rates and AIC credit spreads, and the net present value of the bond's projected redemption terms and refinance terms on a matched maturity basis, which itself is based on a number of the factors previously listed." (Id.) In fact, in this alternative reality, in which AmerenIP had issued only $350 million of 9.75% bonds and AmerenCIPS had issued $50 million of bonds at an unknowable interest rate and unknowable maturity date, and on unknowable terms for early redemption, the possibility remains that AIC would have still redeemed $87.1 million of AmerenIP's 9.75% bonds. Of course, the critical difference under this scenario is that the outstanding balance of 9.75% bonds would be not $312.9 million as AIC proposes (i.e., $400 million original issue amount less $87.1 million in redemptions) but $262.9 million (i.e., $350 million of prudently issued 9.75% bonds less $87.1 million in redemptions), thus, reducing the burden of 9.75% debt by an additional $50 million. In any event, the premiums associated with the 9.75% bonds would likely exceed any premiums associated with hypothetical lower rate bonds, given the Company's

[2] For example, if AmerenCIPS had replaced its loan from AmerenIP with debt with a maturity date of four or fewer years, the replacement debt issue would have been replaced without early redemption penalties.

acknowledgment that, "[a]s a general rule, higher coupon rate debt requires a higher premium to entice bondholders to tender their securities. One simply has to pay more to get an investor to give up a bond paying 9.75% than one has to pay to get an investor to give up a bond paying 6.25%." (Staff Cross Ex. 6.) In summary, the Company's wildly speculative argument is based on conjecture regarding the timing and type of substitute capital AmerenCIPS may have needed in lieu of the $50 million intercompany loan from AmerenIP as well as whether AmerenCIPS would have refunded such substitute capital during August 2012 with the proceeds of the 2.70% bonds. Thus, the Company attempts to improperly substitute impaired hindsight for that of prudent judgment; as such, the Company's arguments should be rejected.

For all the foregoing reasons, the Commission should adopt Staff's adjustment, which would prevent ratepayers from paying costs associated with $50 million more in long-term debt than AmerenIP required for its utility operations during October 2008. 11-0282 Order at 75-76.

3. Common Equity Balance

In Docket No. 12-0001, Staff proposed a common equity adjustment which the Commission rejected for the following reason:

> The Commission has attempted to review the record carefully and cannot find an instance where AIC has violated any accounting rules. As the Commission understands it, accounting rules exist, in part, to protect the veracity of companies' financial statements. Because it appears that AIC has followed all accounting rules and Commission Orders relating to its accounting for purchase accounting, or push down accounting, the Commission rejects Staff's proposed adjustment to common equity balance.

Ameren Illinois Co., ICC Order Docket No. 12-0001, 119 (Sept. 19, 2012).

In this proceeding, however, Staff is not contesting AIC's claims that: 1) IP followed accounting rules when it adjusted its financial statements for purchase accounting as a consequence of its acquisition by Ameren Corp. and 2) it followed accounting guidance in determining earnings available to common shareholders from purchase accounting net income and non-purchase accounting net income. (Staff Cross Ex. 3.) Rather, Staff's proposed adjustment to subtract from AIC's common equity balance approximately $105.5 million of net income related purchase accounting adjustments is because AIC failed to follow the Commission's Order in Docket No. 04-0294 to reverse all purchase accounting for ratemaking purposes and the Company's rationale for not making Staff's proposed adjustment is flawed. Specifically, the Company argues that it has eliminated income statement purchase accounting adjustments by paying cash dividends, as shown in RMP 5.04R Attach. (Staff Cross Ex. 3; AIC IB, 83-84.) This is patently false. As Staff explained, income statement purchase accounting adjustments will affect retained earnings until the Company reverses them for ratemaking purposes. (Staff Ex. 14.0C, 10:187-189.) That is, the end of period balance of retained earnings will always reflect net income-related purchase accounting regardless of any other increments (e.g., non-purchase accounting-related net income) or other decrements (e.g., dividends). Therefore, payment of dividends does not cancel out net income related purchase accounting. (Id. at 11:192-196.)

The Company further incorrectly argues that, "Ms. Phipps' claim that common dividends cannot be paid out of retained earnings from purchase accounting is unsupported by accounting guidance for AIC's reporting of retained earnings included in common equity." (Ameren Ex. 18.0, 56:1159-1162.) Ms. Phipps did not assert that purchase accounting-related net income did not ultimately affect the balance of retained earnings. Ms. Phipps did not assert that dividend payments do not ultimately affect the balance of retained earnings. To the contrary, while cash is necessary to pay dividends, a positive balance of retained earnings is not. Illinois Power Co., ICC Order Docket No. 92-0415, 1993 Ill. PUC LEXIS 119, *57 (March 24, 1993). In fact, the Company could not cite any law or accounting rule that requires that a company have a positive balance of retained earnings in order to pay dividends. (Tr. 371:8, 372:2, Aug. 27, 2013.) Therefore, the increase in AIC's balance of retained earnings realized by AIC's recording of purchase accounting related net income was not a necessary condition for the payment of dividends. That is, AIC's recording of purchase accounting related net income did not make possible the payment of dividends that would have been impossible otherwise. Interestingly, AIC admits that Ameren witness Mr. Stafford was not following accounting guidance (or rules) when he haphazardly allocated dividends to either purchase accounting net income or non-purchase accounting net income, as summarized in RMP 5.04R Attach., provided as Staff Ex. 14.0C, Attach. B. That is, AIC finally admits, "All elimination of purchase accounting is for ratemaking purposes." (Staff Cross Ex. 3.) Thus, there is no merit to AIC's claim that Ms. Phipps' proposal to reverse net income purchase accounting adjustments violates accounting guidance (or rules). (Ameren Ex. 31.0, 27:561-563.) This is similar to the Commission's requirement that AmerenIP collapse all purchase accounting adjustments into Account 114, which is also a ratemaking adjustment that is not based on accounting guidance (or rules). (Staff Cross Ex. 3.)

The Commission should not allow AIC to confuse an issue that is in the end very straightforward. In Docket No. 04-0294, the Commission ordered AmerenIP to reverse all purchase accounting for ratemaking purposes.[3] AmerenIP failed to comply with that directive. The Commission did not limit its directive to that portion of net income related purchase accounting adjustments that had been collapsed into Account 114 (i.e., $356,284,459). It did not carve out an exception for purchase accounting adjustments that had flowed into retained earnings through the income statement. Finally, the Commission did not provide Illinois Power an alternative to reversing its purchase accounting adjustments such as through common dividend "offsets."[4] The Company's arguments would have the Commission believe, however, that such fictional exceptions or carve outs were part of that directive. Such unfounded and unsubstantiated claims should be categorically rejected. Only the adoption of Staff's adjustment to AIC's common equity balance will finally result in compliance with the Commission's Order in Docket No. 04-0294. In summary, for all the foregoing reasons, Staff's adjustment to

[3] As a condition of approval in Docket No. 04-0294, the Commission stated, "IP shall reverse the effects of push-down accounting for ratemaking purposes, and shall not reflect push-down adjustments for debt or preferred stock in its annual reports to the Commission. IP will reflect in Account 114, plant acquisition adjustments, the impacts of all push down accounting, for all Illinois regulatory purposes." Illinois Power Co., ICC Order Docket No. 04-0294, App. A (Sept. 22, 2004).

[4] The first four conditions of approval for Ameren's acquisition of Illinois Power address dividends. Not one of those four conditions, ties common dividend payments to the balance of retained earnings, net income related purchase accounting specifically, or even purchase accounting generally. Illinois Power Co., ICC Order Docket No. 04-0294, App. A (Sept. 22, 2004). To the contrary, in adopting the four conditions that address the resumption of dividend payments, the Commission cited cash flow, not retained earnings, as the important consideration: "The revised conditions proposed by Ameren and accepted by Staff provide a reasonable opportunity for IP to pay dividends, but protects the public interest in maintaining IP's financial integrity and insuring that it retains or has access to sufficient cash to meet its operating and capital requirements." Emphasis added. Illinois Power Co., ICC Order Docket No. 04-0294, 38 (Sept. 22, 2004).

remove an additional $105.5 million of net income related purchase accounting adjustments from AIC's common equity balance should be adopted.

4. Cost of Short-Term Debt, Including Credit Facility Fees

The contested issue regarding bank commitment fees relates to the amount of the recoverable annual credit facility fees. Similar to the bank loan rate, Ms. Phipps recommends an annual fee that is based on AIC's corporate credit rating from S&P, absent AIC's affiliation with merchant generation operations, pursuant to Section 9-230 of the Act. (Staff IB, 35-36.) Ms. Phipps explained that, according to S&P, AIC's affiliation with Ameren Corp. subsidiaries has caused the Company to be rated lower than it would absent the effects of Ameren Corp.'s merchant generating business. The credit facility fee that AIC pays is directly based on the ratings assigned by Moody's and S&P. (Staff Cross Ex. 6.) Therefore, AIC's argument that "an upgrade from S&P resulting specifically from Ameren's divestiture of its merchant generation segment is unlikely to have any significant impact on AIC's cost of debt" contradicts the facts and is unfounded and fails to meet the Section 9-230 requirement that the Commission remove the last "iota" of the increase in cost of capital due to AIC's affiliation with unregulated and non-utility companies. (Staff Ex. 14.0C, 13:224-233.)

5. Embedded Cost of Long-Term Debt

AIC errs when it states, "The record reflects a single point of disagreement on AIC's test year balance of long-term debt." (AIC IB, 77-78.) In addition to the issue of the redemption cost associated with the 2012 refinancing of AmerenIP's legacy 9.75% bonds, there remains a contested issue regarding the appropriate cost of debt for the bond issuances that AIC expects to occur on December 31, 2013. (Staff IB, 37-38.)

6. Cost of Common Equity

Staff's recommended investor-required rate of return on common equity is 8.81% for AIC's natural gas distribution operations. (Staff IB, 30.) For the reasons set forth in pages 39-56 of Staff's IB, as well at those reasons set forth hereafter, the Company's proposed return on equity is overstated due to its reliance on inappropriate inputs. Thus, Staff recommends the Commission adopt Staff's proposed investor-required rate of return on common equity for AIC's natural gas distribution operations.

AIC states:

> [A]s AIC witnesses Mr. Nelson and Mr. Robert B. Hevert noted, AIC's capital expenditures going forward will be within the context of a rising interest rate environment, as the interest rate on long-term U.S. Treasury bonds have moved higher in recent months. AIC views the current interest rate environment in relation to the cost of AIC's capital as a significant factor in today's financial market place. …long-term U.S. treasury rates are considered a proxy for the risk-free rate, and thus have substantial importance to the pricing of equities and securities in the minds of investors.

(AIC IB, 97) (citations omitted.)
In testimony, Mr. Hevert argued that because there historically has been a strong relationship between long-term Treasury yields and utility dividend yields, it follows that measures of the cost of equity would increase along with the upward-shifting yield curve. (Ameren Ex. 20.0, 3:69-71.) In surrebuttal, Mr. Hevert contradicts his own argument when he asserts it is reasonable for the cost of equity to be inversely related to Treasury bond yields during periods of extreme instability. (Ameren Ex. 34.0 (Rev.), 34:556-561.) The Company cannot have it both ways, either we are in a period in which interest rates and the cost of common equity are positively related (i.e., higher interest rates result in a higher cost of common equity), which means that Mr. Hevert's risk premium analysis is inapplicable, or we are in a period in which interest rates and the

cost of common equity are negatively or inversely related (i.e., higher interest rates result in lower cost of common equity), which means the Company's claim that the recent rise in interest rates portends higher costs of common equity is wrong.

In response to Mr. Hevert's argument regarding the positive relationship between long-term U.S. Treasury bond yields and utility dividend yields, Ms. Phipps explained that, historically, the tendency in the relationship between utility dividend yields and long-term U.S. Treasury bond yields has been positive; however, that relationship is not always positive, let alone fixed. Between November 9, 2012, and May 22, 2013, the S&P 500 rose approximately 20%, the 30-year U.S. Treasury bond yield increased almost 17%, and utility stock prices, as depicted by the Dow Jones Utility Average Index, rose approximately 13%. (Staff Ex. 14.0C, 13-14:242-248.) Since stock price is the denominator in the dividend yield calculation, rising stock prices result in falling dividend yields (and, thus, falling common equity costs), all else equal. This recent trend illustrates the importance of updating all the components of the cost of equity analysis as of the same date, as Staff has done, to properly reflect the movement in all of the inputs into the calculation of a utility's cost of equity because the actual relative movement of securities prices will deviate from expectations. (Id. at 14:250-255.)

AIC states, "[D]espite a 34 basis point increase in Ms. Phipps's recommendation from direct to rebuttal testimony, Staff's recommendation in particular remains extremely low, representing an outlier position that should be excluded altogether from consideration." (AIC IB, 98.) To the contrary, in a document prepared for Ameren, which is dated February 25, 2013, Duff & Phelps estimated that Ameren Illinois' cost of common equity is [*begin confidential**] XXXX[**end confidential**]. Ms. Phipps explained that there is only a minor conceptual difference between Duff & Phelps' cost of common equity estimate, which was prepared for a goodwill impairment test, and the cost of common equity in this rate case. (Staff Ex. 14.0C, 17:308-314.) The former estimates the cost of common equity for AIC as a whole, whereas the latter estimates the cost of common equity for AIC's gas operations. Nonetheless, the difference in risk between gas and electric distribution operations cannot account for the [**begin confidential**] XXXX [**end confidential**] basis point difference between the cost of common equity estimates of Mr. Hevert and Duff & Phelps. To the contrary, Mr. Hevert estimated that the cost of common equity of Ameren Illinois' gas operations was lower than the cost of common equity for its electric operations.[5] (Staff Ex. 14.0C, 17-18:314-321.) This implies that the standalone AIC gas cost of common equity is lower than Duff & Phelps' estimate of [**begin confidential**] XXXX [**end confidential**] since it reflects both AIC's electric and gas operations. Ms. Phipps' 8.81% recommendation is much closer to the AIC return on equity used for AIC's goodwill impairment test than Mr. Hevert's 10.40% return on equity proposal.

DCF Analysis

The Company takes issue with Staff's reliance on a constant growth DCF analysis, the long-term growth rate Staff employed in its NCDCF analysis, and Staff's use of spot stock prices in its DCF analyses. (AIC IB, 99, 109-112, 117-121.) As

[5] Mr. Hevert recommended an 11.00% ROE for AIC's gas delivery services in Docket No. 11-0282 and an 11.25% ROE for AIC's electric delivery services in Docket No. 11-0279. In the gas case, Mr. Hevert's average DCF estimate was 10.20% and his average CAPM estimate was 11.26%. In the electric case, Mr. Hevert's average DCF estimate was 10.74% and his average CAPM estimate was 11.29%. (Docket No. 11-0282, Ameren Ex. 3.0G, pp. 6-7; and Docket No. 11-0279, Ameren Ex. 3.0E, pp. 6-7.)

explained in Staff's IB, the most significant problem with the Company's NCDCF analysis is that it employs a long-term growth rate that is based on historical GDP growth, which overstates the investor-required rate of return. (Staff IB, 46-49.) Towards that end, Staff independently tested the sustainability of Mr. Hevert's long-term growth rate for the sample companies using current and forecasted data from Value Line Investment Survey. As Staff explained, Mr. Hevert's long-term growth rate is not sustainable (the Companies in the gas sample would have to sustain indefinitely, rates of return on common equity <u>in excess of 19%</u>) and should not be used in the NCDCF analysis to determine the investor-required rate of return on common equity. (Staff IB, 46-47.)

The Company opposes Ms. Phipps' decision to rely on the results of her constant DCF rather than her NCDCF analysis. (AIC IB, 117.) Yet, Staff's NCDCF analysis estimates, which were not reflected in its recommendation, are lower than Staff's constant growth DCF analysis estimates. (Staff IB, 42.) Moreover, AIC states, "[s]pecifically, Staff and IIEC used very low growth rate assumptions in their DCF models that are not sustainable by record evidence." (AIC IB, 99) This claim is both unfounded and unsubstantiated. Foremost, the 4.92% average 3-5 year earnings growth forecasts from Zacks and Reuters that Staff used is higher than the range of the forecasted long-term growth of the overall economy (4.3% - 4.8%), not lower. Further, Ms. Phipps found that the 4.92% average 3-5 year earnings growth rates implied an average 13.3% ROE for the gas sample. In comparison, Value Line forecasts a 10.8% ROE for the gas sample. Therefore, Ms. Phipps concluded that the implication investors expect those companies to sustain a 13.3% ROE indefinitely is questionable.

(Staff Ex. 14.0C, 5:85-94.) However, she explained that given the small difference that would result from incorporating the results of her NCDCF analysis into her recommendation, she continued to rely upon her constant growth DCF and risk premium analyses, which were the basis for her recommendation in direct testimony. (Id. at 5:94-101.) In summary, it is more likely that Staff's use of the 4.92% average 3-5 year earnings growth rate is too high for the long-term rather than too low as the Company alleges.

Despite the Company's position that long-term growth should be higher than current growth rates, Mr. Hevert claims that payout ratios for gas utility companies are at the low end of observed historical levels due to "the elevated level of capital expenditures the industry is facing in the near term and therefore can be expected to increase over time." (Ameren Ex. 34.0 (Rev.), 13:197-202.) Under cross-examination, Mr. Hevert admitted that, all else equal, as the level of capital expenditures in the gas industry falls, the growth rate in the gas utility earnings will decrease. (Tr., 515:7-12, Aug. 29, 2013.) In other words, growth rates will fall over the long-term, not rise. Thus, the Company contradicts itself in an attempt to justify its inflated return on equity proposal.

Furthermore, during cross-examination, Ms. Phipps explained that she disagreed with the Company's reference to "unsustainably low" growth rates given lower growth rates are more sustainable than higher growth rates. (Tr. 574:22-24, Aug. 29, 2013.) That is, in prior cases, Staff has employed NCDCF analyses in those instances in which analysts' growth rates exceed the expected long-term nominal growth rate for the economy because in the long run, it is not possible for any firm to growth at a rate higher than GDP. See, e.g., 11-0767 Order at 107; 09-0306 Order at 215. As the Commission explained in the 09-0306 Order:

> The Commission notes that in the past, it has traditionally relied on a constant growth DCF model with analysts' estimates of EPS growth in developing the cost of common equity for utilities in rate case. In recent years however, the Commission has begun using a non-constant growth model as analysts projected growth rates for utilities have exceeded the projected growth rate of the U.S. economy as a whole… The Commission notes that…at least in this instance, the use of a single-stage, constant growth DCF model is inappropriate, as analysts' estimates for earnings growth are currently unreasonably high and are not sustainable for utilities.

09-0306 Order at 215.

Mr. Hevert relied upon a 3.24% real GDP growth rate based on data from 1929 – 2011 and an expected inflation rate beginning in 2023 to derive the 5.61% long-term growth rate used in his NCDCF analysis. (AIC IB, 108-109.) In Docket No. 07-0566, the Commission correctly rejected a company's long-term growth rate that used historical GDP to estimate future GDP in favor of Staff's long-term growth rate that was derived from current market data. Commonwealth Edison Co., ICC Order Docket No. 07-0566, 97-99 (Sept. 10, 2008). The Commission should do so again here. No evidence was proffered that would compel the Commission to now change its position on this issue.

Despite current forecasted economic growth rates for the 2023-2043 period, which range from 4.3% to 4.8% (Staff IB, 42), the Company argues that Ms. Phipps' use of a 4.6% long-term growth rate is inconsistent and unsupported based on the projected 30-year Treasury yield of 5.60% based on Blue Chip Financial Forecasts for the third-stage period. (AIC IB, 111.) The Company conveniently fails to acknowledge, however, that the same source it used provides a direct forecast of nominal GDP growth of 4.8%, which supports Ms. Phipps' 4.6% long-term growth rate and which renders unnecessary its reliance on a forecasted U.S. Treasury bond yield as a substitute for a nominal long-term economic growth rate for the third stage of NCDCF analysis. (Staff IB, 47-48.) Moreover, the Commission's Order in Docket No. 11-0767 states, "[a]s for the long-term growth rate, the Commission notes that it has utilized estimates of GDP as a proxy for long-term growth in some previous proceedings. The record here supports the conclusion that estimates of future GDP are a reasonable proxy for long-term growth." 11-0767 Order at 108. As such, the Company's criticism of Ms. Phipps' long-term growth rate based on long-term Treasury bond yields is unfounded, misplaced and should be rejected.

The Company errs again when it alleges that Mr. Hevert's testimony establishes that Staff's long-term growth rate of 4.6% is inconsistent with historical growth rates actually experienced in the United States between 1929 and 2012. (AIC IB, 110.) Ms. Phipps explained that Mr. Hevert's analysis calculates the growth rate for overlapping periods (i.e., 1929-1939; 1930-1940, etc.), which skews the results of his analysis given one or two years can greatly affect many observations and distort results. (Staff Ex. 14.0C, 21:376-379.) Importantly, during the 1941-1943 period growth rates ranged from 22.7% - 27.8%, which is not surprising given growth rates following depressions and recessions are usually higher than the long-term average growth rate. Moreover, the 1929-2012 measurement period includes periods of high inflation during the 1940s and 1970s. In fact, fifty of the 84 observations for annual inflation exceed Mr. Hevert's forecasted 2.39% inflation rate. (Id. at 379-387.)

Finally, with regard to the long-term growth rate estimate required for a NCDCF analysis, the Company alleges, "Ms. Phipps' calculation relies upon a mixture of long term real GDP projections and also a historical spot price (July 23, 2013) based estimate of future inflation for the period 2023-2043. The reliance upon spot prices plus future estimates simply lacks support." (AIC IB, 111.) The Company criticizes Staff's reliance upon a GDP growth rate in the NCDCF analysis even though the Company also relies upon a GDP growth rate in its NCDCF analysis (albeit an historical average GDP growth rate, which is problematic for the reasons explained previously). (AIC IB, 117-120.) Moreover, the Company opposes Staff's July 23, 2013 calculation of the "TIPS spread" to estimate inflation for the period 2023-2043 even though Staff's July 23, 2013 spot data estimates a 2.3% inflation rate whereas Mr. Hevert's 30-day average TIPS spread produced an estimated inflation rate of 2.32%. (Staff Ex. 14.0C, Sch. 14.07; Ameren Ex. 34.0 (Rev.), 55:946-948.) The Company's criticisms should be rejected as they appear to be arguments for the sake of arguing. Most importantly, the Company's argument is baseless given Staff has employed, and the Commission has accepted, the same methodology for estimating a nominal long-term economic growth rate in prior rate cases. 11-0282 Order at 90, 123; 11-0767 Order at 91, 111.

The Company mistakenly refers to the July 23, 2013 data used in Ms. Phipps' long-term GDP growth rate estimate as a "historical spot price." (AIC IB, 111.) Similarly, the Company is mistaken when it claims Staff's criticism of Mr. Hevert's reliance on historical average stock prices is illogical because Ms. Phipps uses historical prices to formulate her opinion. (AIC IB, 109.) To the contrary, Staff's analysis employed the most recent data available given the dates for filing Staff testimony in this case – i.e., May 22, 2013 for Direct Testimony filed on June 11, 2013 and July 23, 2013 for Rebuttal Testimony filed on August 7, 2013.

As Ms. Phipps explained, only the most recently available stock price will reflect all information that is available and relevant to the market. (Staff Ex. 14.0C, 19:339-341.) Further, research has found that the last observed security price is the best estimator of future security prices. (Id. at 19:342-345.) In contrast, use of an historical average requires the analyst to subjectively determine what data is no longer relevant, needlessly and inappropriately replacing the collective judgment of all investors with his own. (Id. at 18:330-333.) Mr. Hevert's use of historical data (30, 90 and 180-day average stock prices) includes the added flaw of inappropriately mixing and matching data from different points in time (e.g., Mr. Hevert's DCF analysis mixes growth rates that were not published until after the date of his historical stock prices). (Id. at 18:333-339.)

The Company argues against the use of spot prices, claiming anomalous events may affect stock prices on any given trading day. (AIC IB, 109-110, 120-121.) Given Mr. Hevert's average dividend yield is very close to Ms. Phipps' average dividend yield – i.e., 3.61% vs. 3.51%, this appears to be another criticism for the sake of criticizing. (Ameren Ex. 20.1; Staff Ex. 14.0C, Sch. 14.04; Tr. 527-528, August 29, 2013.) Nevertheless, not only did Ms. Phipps use a sample to minimize the effects of any such unusual changes in stock prices, as estimates for a sample as a whole are subject to less measurement error than individual company estimates, but she updated her original analysis several times between filing direct and rebuttal testimonies. The resulting cost of equity estimates do not reveal anything unusual occurring in the markets on any of those measurement dates. (Staff Ex. 14.0C, 19-20:346-364.) Staff presented a similar analysis in AIC's last gas rate case, Docket No. 11-0282, in which the Commission concluded:

> [Staff] presented an analysis that is intended to demonstrate that her results do not depend heavily upon the particular day selected for the spot prices. Having reviewed the evidence, the Commission finds that the analysis presented by [Staff] mitigates some of the concerns the Commission has recently expressed regarding the use of spot prices. The Commission also concludes, however, that as AIC suggests, the timing of stock prices is not significant in this case."

11-0282 Order at 123. Indeed, in this case, AIC correctly notes the use of historic spot prices versus historical averages in models generally is considered a dispute of "lesser significance overall." (AIC IB, 100.)

For all the foregoing reasons, the Commission should accept Staff's DCF analysis, which inputs are market-based and unbiased, and reject the Company's NCDCF analysis due to its overstated growth rate assumption, which inflates the Company's DCF-derived cost of equity estimate for AIC's natural gas operations.

CAPM Analysis

The Company and Staff disagree on all three inputs for the CAPM analysis: (1) beta; (2) the market return; and (3) risk-free rate. In Staff's view, the issues of beta and the market return are the most significant.

Beta

AIC acknowledges that the three beta estimates relied upon by Mr. Hevert are weekly betas. (AIC IB, 114-115.) Studies have shown that the major cause of significant differences in beta is the use of monthly versus weekly return intervals.

(Staff Ex. 14.0C, 26:487-488.) The difference in beta estimates may be the effect of non-synchronous trading, which occurs when a stock's price does not yet reflect information that is reflected in the market as a whole – a problem that increases as the time interval decreases. (Id. at 493-496.)

Ms. Phipps calculated lag betas for Mr. Hevert's regression beta (a weekly beta calculated over 18 months) and explained that a lag beta would not be significantly different from zero unless non-synchronous trading was a significant factor. (Staff Ex. 14.0C, 26:496-501.) Calculating Mr. Hevert's weekly betas with the addition of the market rate of return lagged by one week results in a lag beta that is significantly different from zero at the 95% confidence level[6] for at least 6 of the 9 companies in Mr. Hevert's comparable sample, which indicates that non-synchronous trading has a significant presence in Mr. Hevert's weekly data. (Staff Ex. 14.0C, 27:502-506.) Ms. Phipps also calculated the lag beta for her monthly regression beta for the gas sample. The lag beta was statistically significant for only 2 of the 9 companies in her comparable sample, which indicates the longer time interval (i.e., monthly vs. weekly) diminished the effect of non-synchronous trading. (Staff Ex. 14.0C, 27:507-511.)

Ms. Phipps also compared the coefficient of variation ("C.V."), which measures the risk per unit of expected return, or relative variability of returns, using Mr. Hevert's weekly data and Staff's monthly data. The C.V. was much higher for the weekly data than the monthly data, which indicates the shorter return interval in Mr. Hevert's weekly

[6] The confidence level signifies the degree to which one can be confident the estimate is different from zero.

data leads to an increase in random error (the amount of variation in stock returns that is not due to changes in the market return). (Staff Ex. 14.0C, 27-28:512-519.)

In summary, monthly betas result in lower relative variability than weekly betas (as measured by the lower C.V. values vis-à-vis weekly betas) and mitigate the effects of non-synchronous trading (as denoted by fewer monthly lag betas that should be statistically different from zero). (Staff Ex. 14.0C, 28:520-524.)

The Commission rejected the Company's CAPM, which relied exclusively upon weekly betas, in a previous AIC rate case, Docket Nos. 09-0306 et al. (Cons.). The Commission's Order in that docket states, in pertinent part:

> The Commission further finds that Staff's use of both weekly and monthly betas, is superior to the use of only one or the other. It appears from the testimony that there are weaknesses present in both monthly and weekly beta estimates; however, the use of both should ameliorate those weaknesses and assist the Commission in identifying this input which measures investor's expectations of the quantity of non-diversifiable risk inherent in a security.

09-0306 Order at 213. Thus, in this case, Mr. Hevert's CAPM analysis, which relies exclusively on weekly betas, should be rejected as it was in Docket No. 09-0306, and in Docket No. 11-0282 (the most recent AIC gas rate case). 11-0282 Order at 125.

According to AIC, "Mr. Hevert conducted an empirical test…and found that his betas were not faulty or subject to 'non-synchronous trading' or interval bias." (AIC IB, 115.) To the contrary, Mr. Hevert never concluded that non-synchronous trading was not an issue with respect to the beta he used in his CAPM analysis. (Tr. 510-511, August 29, 2013.) Rather, Mr. Hevert's empirical test indicates that a monthly beta, calculated over an 18-month period, had statistically significant lag betas. (Ameren Ex.

34.0 (Rev.), 26:390-393; 27-28:427-430; Tr. 529, August 29, 2013.) This result is not relevant to the issue of which of the parties' proposed beta estimates should be adopted since no party proposed to use the beta that Mr. Hevert tested; that is, a monthly return interval beta calculated over an 18-month period. Nevertheless, the Company argues that Mr. Hevert's 18-month beta coefficient is superior to Ms. Phipps' use of five years of historic data. (AIC IB, 114.) As Staff explained, measuring beta over shorter time periods can bias the beta estimate because beta estimates can move in the opposite direction of risk. (Staff IB, 50.) Mr. Hevert's average beta estimate of 0.789, exceeds Staff's 0.62 beta estimate and, consequently, overstates the investor-required rate of return. (AIC IB, 114; Staff Ex. 14.0C, Sch. 14.09.) Furthermore, to estimate AIC's [**begin confidential**] XXXX [**end confidential**] cost of common equity for the goodwill impairment study, Duff & Phelps employed a beta of [**begin confidential**] XXXX [**end confidential**], which is much closer to Staff's 0.62 beta than Mr. Hevert's 0.789 beta. (Staff Ex. 14.0C, Attach. C, 9.) Clearly, Mr. Hevert's beta estimate is an outlier and, as such, the Commission should reject it.

In AIC's last gas rate case, Docket No. 11-0282, the Commission endorsed five-year beta estimates and expressed concern over Mr. Hevert's short-term beta estimates. Specifically, the Commission concluded:

> The other parties take issue with the beta estimates used by Mr. Hevert, particularly the estimates he calculated using a 12-month measurement period. The Commission has traditionally relied upon betas calculated with five years of data. While Mr. Hevert explained his rationale, the Commission is not convinced that betas calculated with twelve months of data are reliable or appropriate for use in establishing the cost of common equity.

11-0282 Order at 123-124.

Market Risk Premium Analysis

The Company claims it is appropriate to include non-dividend paying companies in the market risk premium calculation, as Mr. Hevert does, and criticizes Ms. Phipps for eliminating non-dividend paying companies from her market risk premium calculation. (AIC IB, 114-115.) Ms. Phipps explained that including non-dividend paying companies in a DCF analysis of the market overstates the resulting estimated required rate of return on the market and the implied risk premium. (Staff Ex. 14.0C, 29:540-542; Staff IB, 52.) The weighted average growth rate for the dividend paying companies is 10-11% whereas the weighted average growth rate for the non-dividend paying companies is 13-14%. (Staff Ex. 14.0C, 29-30:542-544.) Furthermore, Duff & Phelps currently estimates a 9.0% required rate of return on the market (Staff IB, 52), which indicates Staff's estimate is more likely to be too high than too low.

The Company claims that, "Staff erred in the calculation of its CAPM by excluding non-dividend paying companies from the overall market rate of return used in its model." (AIC IB, 99) To the contrary, in AIC's last gas rate case, Docket No. 11-0282, the only CAPM analysis accepted by the Commission was Staff's CAPM analysis, which reflected a market risk premium calculated in the same manner as in the instant case. 11-0282 Order at 125. Additionally, the Commission's Order for the previous AIC rate case, Docket Nos. 09-0306 et al. (cons.), affirms Staff's CAPM methodology stating:

> The Commission finds that Staff's constant-growth DCF analysis of the S&P 500 to determine the appropriate market risk premium is superior in this instance. The Commission further finds that the current yield on long-term U.S. Treasury bonds is a more appropriate proxy for the risk-free rate than forecasts of that rate.

09-0306 Order at 214.

The Risk-Free Rate of Return

The Company claims that, “In the past the Commission has criticized the use of a spot yield or rate as problematic and unfair to the applicant.” (AIC IB, 114.) The Commission accepted Staff’s CAPM analysis in the Company’s last two gas rate cases. 09-0306 Order at 214; 11-0282 Order at 125. In Docket Nos. 09-0306 et al., the Commission noted that the current yield on long-term U.S. Treasury bonds is an appropriate proxy for the risk-free rate. 09-0306 Order at 214. Similarly, the Commission’s Order in Docket No. 11-0767 states, “With regard to the use of spot yields, the Commission believes the Staff proposal is better supported by the record and past Commission treatment of the issue.” 11-0767 Order at 109. Therefore, the Commission should accept Staff’s spot risk-free rate, as it has in the past, since it reflects the current market forces that impact the investor-required rate of return on common equity.

Flotation Cost Adjustment

Taking into consideration the regulatory environment in which AIC operations, weather variability, and flotation costs associated with the issuance of equity, Mr. Hevert recommends a return on equity of 10.4%.” (AIC IB, 100, 107.) The Staff IB sets forth the reasons the Commission should reject the generalized flotation cost adjustment considered in the Company’s rate of return on common equity recommendation. (Staff IB, 54-56.) Accordingly, Staff recommends the Commission find that there is no basis to consider flotation costs in establishing AIC’s cost of common equity as it did in AIC’s last gas rate case. Specifically, the Docket No. 11-0282 Order states, “The Commission is not, however, amenable to approving a flotation cost adjustment based upon an average of flotation costs for other utilities, as Mr. Hevert calculated in his direct testimony. Despite all of the testimony and argument on this issue, the Commission finds no basis to consider flotation costs in establishing AIC's cost of common equity in this proceeding." 11-0282 Order at 126.

C. Recommended Overall Rate of Return

Staff continues to recommend a 7.56% overall cost of capital for the Company's gas delivery services, which reflects an 8.81% cost of common equity, as shown below.

Weighted Average Cost of Capital Summary
Staff Proposal
Average 2014

Capital Component	Balance	Weight	Cost	Weighted Cost
Short-Term Debt	$10,995,015	0.28%	1.27%	0.00%
Long-Term Debt	1,912,158,622	47.85%	6.28%	3.00%
Preferred Stock	58,757,200	1.47%	4.98%	0.07%
Common Equity	2,013,829,819	50.40%	8.81%	4.44%
Credit Facility Fees				0.05%
Total	$3,995,740,656	100.00%		7.56%

(Staff Ex. 14.0C, Sch. 14.01.)

V. Cost of Service

A. Resolved Issues

B. Contested Issues

1. Cost of Service Study

i. T&D Main Allocation Methodology

IIEC disagrees with Staff's and the Company's recommendation to use the peak and average method to allocate the cost of transmission and distribution ("T&D") mains. IIEC argues that "[b]ased on the evidence in the record, it would be more appropriate to use the design peak demand allocator to allocate the T&D main costs of the Company." (IIEC IB, 37.)

The Commission should reject IIEC's arguments. Contrary to IIEC's assertion, using the peak and average demand method is consistent with general practice in Illinois and, therefore, should be approved by the Commission. (Staff IB, 57.) Furthermore, the peak and average method is appropriate as it recognizes that two key factors drive investment in transmission and distribution plant. First is the need to meet peak demands, not just for individual classes, but, for the system as a whole. (Id.) This is why coincident peak demands are used as one component of the allocator. (Id.) Second, the allocator recognizes the role of year-round demands in shaping transmission and distribution investments through the average demand component. (Id.) The investments associated with a distribution system cannot be justified solely by demands on a peak day; rather, they are dictated by year-round demands by all ratepayers. (Id.) In fact, when asked if it was aware of any case, order or proceeding where the Commission has ruled to reject the T&D main allocation factor that the Company has proposed in this case, IIEC replied that it was unaware of any such circumstances. (Id. at 58.) IIEC also replied that it was unaware of any circumstance where the Commission has approved its proposed allocation method for T&D mains. (Id.)

The Company's proposal to allocate T&D mains using the peak and average method is appropriate for use in this proceeding and should be approved by the Commission. (Id. at 56.)

ii. Low Pressure Distribution System

IIEC argues that the Company's cost of service ("COS") study is flawed because it fails to allocate a portion of the Company's low pressure distribution mains on a customer basis. (IIEC IB, 38.) IIEC argues that the Company's COS study over-allocates costs to large customers because the COS study does not first classify a portion of low pressure T&D mains on a customer component and then allocate the remaining costs on both customer and demand components. (IIEC Ex. 2.0, 8:170, 9:199.) IIEC references the National Association of Regulatory Utility Commissioners manual that IIEC asserts recognizes that costs associated with the minimum sized distribution main are customer related. (IIEC IB, 59.)

The Commission should reject IIEC's argument. The costs of service lines and meters are properly considered customer-related because their primary purpose is to serve the individual customer. (Id.) Similarly, the distribution system has the primary purpose of meeting all ratepayer demands and is appropriately considered demand-related. (Id.) IIEC's hypothetical minimum sized distribution main, which it identifies as a customer component, is part of a distribution system that is clearly related to customer demands. (Staff Ex. 15.0, 22:405-408.)

The Commission has consistently rejected this minimum sized distribution method in prior dockets. Ameren Illinois Company, ICC Order Docket Nos. 07-0585, 280 (Sept. 24, 2008); Northern Illinois Gas Company, ICC Order Docket No. 08-0363, 77 (March 25, 2009); Central Illinois Public Service Company (AmerenCIPS) and Union Electric Company (AmerenUE), ICC Order Docket No. 00-0802, 41-43 (December 11, 2001); MidAmerican Energy Company, ICC Order Docket No. 01-0444, 19 (March 27, 2002); Northern Illinois Gas Company, ICC Docket No. 88-0277, 298-299 (June 21, 1989) Previously, the Commission rejected IIEC's proposal for the Company to provide a COS study that uses the minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component. Central Illinois Light Co., ICC Order Docket Nos. 06-0070 et al. (Cons.), 161 (Nov. 21, 2006). Likewise, the Commission should reject IIEC's proposal to use a minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component in the current proceeding as well. (Staff IB, 60.)

VI. Revenue Allocation

A. Resolved Issues

B. Contested Issues

The Commission should approve the Company's proposed revenue allocation approach that constrains movement to full class cost of service for any one class to 1.5 times the overall average rate increase so as not to create adverse bill impacts. (Id. at 61.)

Early in this proceeding, AG/CUB recommended that the revenue constraint of 1.5 times the average percentage increase should be applied (AG/CUB Ex. 3.0, 5-6:110-117), except where doing so over a series of five cases (approximately ten years) would not result in a customer class paying rates that approximate its cost of service. (Id. at 6:124-131.) Where that condition would not be met, AG/CUB recommends either

(a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases, or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified. (Id., 5-6:97-131.)

In its Initial Brief, the AG indicates that "[b]ased on agreement between the People and the Company to make certain changes to the characteristics of rate class GDS-5, *the People no longer take issue with the Company's proposed constraints*. However, the People urge the Commission to revisit this issue in the next case where Ameren's rate design and class revenue allocation are considered, so that decisions can be made about any further modifications that may be necessary in Rate GDS-5." (AG IB, 51, e*mphasis added*.) Staff believes that this would be reasonable.

VII. Rate Design

A. Resolved Issues

1. SFV Cost Recovery

2. GDS-5 Rate Availability

B. Contested Issues

1. GDS 1 Increase

The AG objects to the Company's proposal to increase the Customer Charge for the GDS-1 rate class. (AG IB, 65.) The AG argues that "[f]or purposes of setting rates in this case, there should be no change in Ameren's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. That is, the entire rate increase allocable to Residential customers (if any) should be recovered through increases in the per-therm distribution charge." (AG/CUB Ex. 3.0, 4:82-87.) The Commission should reject the AG's proposal.

The evidence indicates that for GDS-1, there should be increases to both Customer Charges and Distribution Charges. Staff proposes small increases to GDS-1 Customer Charges and Distribution Charges in both Rate Zone I and Rate Zone III. (Staff Ex. 6.0, 36-37:688-705; Staff Ex. 15.0, 17-18:315-317.) Staff's proposal allows for consolidation of the rates for the two zones. (Staff Ex. 15.0, 18:317-318.) It also allows for an increase that is below the proposed overall Company average increases in rates and that is distributed more evenly between the Customer Charge and the Distribution Charge than is the AG's proposal. (Id. at 18:318-321.) The Company proposes an overall rate increase of 15.46%. Staff's proposed rate design would produce a 9% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone I GDS-1 customers. There would be an 11% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone III customers. Staff's rate design will mitigate some of the subsidies that the GDS-1 class is providing to other classes by virtue of below average increases proposed for the class and should be approved by the Commission. (Id. at 18:326-328.)

2. Heating vs. Non-Heating Customer Study

The AG is concerned about the impacts on low use customers in the Company's straight fixed variable pricing model and urges the Commission to approve bifurcation of heating and non-heating customers in the GDS-1 rate class. (AG/CUB Ex. 3.0, 20:385-386.) The AG also encourages the Commission to authorize a study to bifurcate the GDS-1 rate class. (AG IB, 58-59.)

Staff recommends the Commission reject AG/CUB witness Rubin's proposal to require the Company to present a COS study in its next rate case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. (Staff IB, 66.) Staff believes that criteria and usage thresholds would have to be established before Ameren's billing system could be programmed to distinguish between Heating and Non-Heating customers. (Id. at 67.) Until those criteria are established, Ameren would not be able to customize its billing system or COS study method to determine the cost to serve non-heating customers separately from the cost to serve heating customers. (Id.) However, Staff does recommend that the Commission direct the Company to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. (Id.)

This information should include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program Ameren's billing system to distinguish between heating and non-heating customers and estimates of the cost to serve the two groups of customers. (Id.) This would enable the Company and the parties to that proceeding to analyze the data and determine whether creation of a Heating and Non-Heating GDS-1 customer class would better reflect the cost to serve these two distinct subclasses of customers. (Id.) At that time, if it is determined that bifurcation of the GDS-1 class is desirable, the Commission could order the Company to include that class bifurcation in the COS study for the following Ameren gas rate filing. (Id. at 66-67.)

3. Proposed Rate Increases for Rate Zone III GDS-4

4. Proposed Rate Design for Rate Zone II GDS-4

The Commission should reject IIEC's proposal to maintain the existing rate structure for GDS-4 in Rate Zone II and increase the delivery and demand charges by the class average percent (limited to 1.5 times the system average, if necessary) resulting from the COS studies. (IIEC IB, 44.)

The Company's proposed rate design for the GDS-4 class in Rate Zone II is appropriate. The Company's facilities are designed and installed to meet customer peak demand. (Staff Ex. 15.0, 27:514-516.) Ameren's rate design is intended to send proper price signals on the basis of peak demand. (Id. at 27:515-516.) Ameren's proposal to eliminate the separate demand charges for customers who use less than two million therms versus those who use more than two million therms is a move toward inter- and intra-class price uniformity for the GDS-4 class. (Id. at 27:516-519.) This proposal also mitigates undue customer bill impacts by limiting the rate increases for the class as a whole to 1.5 times the system average. (Id. at 27:519-521.)

IIEC expresses concern that some individual customers in the Rate Zone II GDS-4 class will see an increase greater than the 1.5 times the system average increase constraint that is applied to the GDS-4 class as a whole. (IIEC Ex. 2.0, 13:285-289.) IIEC discusses a hypothetical situation where a customer using over 2 million therms could receive an increase of up to 1.9 times the system average. (Id. at 14:298-300.) Nevertheless, the Company has indicated that a very small percentage of customers (only 12.5% of the customers in the class according to the sample size) would even have the potential to exceed the 1.5 times the system average increase. (Ameren Ex.

9.0, 29:613-629.) No rate design proposal can be a perfect fit for all customers and, in this case, a small proportion of GDS-4 customers in Rate Zone II have the potential to see their rate increase above the 1.5 times the system average increase constraint. (Staff Ex. 15.0, 28:528-531.) The Company's rate design, however, attempts to mitigate rate shock to all customer classes in all rate zones while forging ahead with the Commission's preference to move toward price uniformity. (Id. at 28:531-534.) IIEC's proposal, on the other hand, does not allow for movement toward price uniformity and its argument that the GDS-4 class' rate increase could potentially cause a rate increase of 1.9 times the system average is not compelling as it is still relatively close to the 1.5 times constraint and applies to a very small percentage of customers. (Id. at 28:534-537.)

VIII. SVT PROGRAM

A. Resolved Issues

1. SVT Program Separate Proceeding

2. Budget Billing Plan for SVT Customers

3. Rider SVT

i. Assessment of Pipeline Penalties

In its IB, Staff continues to express concerns that pipeline penalties are allocated correctly and fairly. (Staff IB, 75.) ICEA/RESA stated in testimony that pipelines should assess the marketers directly and agreements with their customers should determine how customers are allocated those costs. (Id.) Ameren is willing to accept the Commission's decision (AIC IB, 161.) Staff remains committed to working with all parties to ensure that penalties are fairly assessed between customers. (Staff IB, 75.)

ii. Utility Consolidated Billing

iii. Stakeholder Meetings

iv. Rescission Period

v. Tariff Language Changes

4. Rider GTA

i. Sunset Provision

While Ameren continues to advocate for Rider GTA, it acknowledged Staff's concerns and proposed a sunset of October 2017 for the Rider. At the same time, it wants to retain the right to petition for an extension in the event that Rider GTA is needed beyond the sunset. According to AIC, all intervenors concur. (AIC IB, 148-149.) Staff agrees that the sunset provision and proposed expiration date are appropriate. (Staff IB, 80.)

ii. Use of System Weighted Average Cost of Gas

iii. Tariff Language Changes

5. Rider GSIC

i. Identification of Costs to be Recovered

Staff concluded that the purpose for Rider GSIC is theoretically sound; however, Ameren needs to identify the assets it intends to use pursuant to the Rider before it incurs those costs. (Staff IB, 83-84.) Ameren agrees to "to file a list of contracts with the ICC Manager of Accounting by October 1 of each year identifying the costs that will be removed from Rider PGA and recovered through Rider GSIC during the following November 1 through October 31 time period. The Marketers have also agreed to this recommendation." (AIC IB, 150) (citations omitted).

ii. Storage Inventory Transactions

iii. Tariff Language Changes

6. Price to Compare

Staff posits that the record is incomplete with respect to determining a Price-to-Compare, since no party filed detailed testimony on the topic until intervenors' rebuttal testimony. (RGS Ex. 2.0, 8:169-10:199.) Staff argues that this is a reason for implementing SVT in a separate proceeding. (Staff Ex. 16.0, 3:55-57.) Ameren agrees. It acknowledges the dispute over the cost elements that should make up the Price-to-Compare and notes that the marketers and Ameren can discuss the topic in the stakeholder meeting prior to the SVT tariff filing, while changes can be discussed in the annual stakeholder meeting. (AIC IB, 151.)

B. Contested Issues

1. Approval of SVT

Ameren remains neutral on whether the Commission should order it to initiate an SVT program. It states that, if the Commission so orders, it will file tariffs implementing the program within 45 days after a final order in this docket. (AIC IB, 145-146.)

CUB argues that the Commission first needs to determine that there is "substantial evidence in this proceeding that is sufficient to support moving forward with an SVT program in Ameren territory [.]" (CUB IB, 29.) However, ICEA/RESA proffered witnesses supporting the existence of benefits of SVT for customers. ICEA/RESA discusses those benefits in its IB. (ICEA/RESA IB, 4-10.) CUB disputes those claims. It argues instead that the costs are real, while the benefits are less tangible. (CUB IB, 33-36.) As a result, it states that "the Commission cannot ignore the void of evidence supporting expansion of SVT in Ameren territory[.]" (Id. at 38.)

RGS argues that there is consensus on all but a few issues (RGS IB, 3.) On many issues, most parties did agree on tariff language. However, Staff interprets consensus as described by the Commission in its Docket No. 11-0282 Final Order to mean that all parties need to agree on all (or perhaps almost all) issues. Since CUB did not agree that customers are necessarily better off with an SVT program, there is no consensus. In particular, since the original lack of complete agreement concerned the foundational issue of whether Ameren should have an SVT program; Staff believes that RGS overstates the level of agreement on SVT issues.

Further, RGS argues that CUB lost the ability to contest certain issues because it didn't contest them vigorously enough in the workshops. (Id. at 4.) RGS also makes the same argument with respect to Purchase of Receivables ("POR") at pages 14-15 of its IB and consumer protections on page 16 of its IB. This argument entirely mischaracterizes the workshop process. Workshops are explicitly designed so as to not bind participants to a particular position or lack of position. Rather, they are designed to allow participants the freedom to express ideas and opinions that may or may not be advocated in formal proceedings. As such, the Commission should disregard this argument by RGS.

Staff agrees that the Commission should determine whether a SVT program is in the public interest. The Commission noted in the past that it favors competition and believes that a well-designed program can benefit customers. Staff continues to contend that the program can meet the 'well-designed' criteria advocated by the Commission in its order in Docket No. 11-0282. (Staff IB, 85-86.)

2. Purchase of Receivables

3. Consumer Protections

4. Discount Rate for SVT and UCB/POR Customers

Ameren proposes to use its Rider S Uncollectible Factor for the discount rate. (AIC IB, 153.) Ameren states that it has agreed with ICEA/RESA that the discount rate should be reviewed 12 months after the start of the program and participation rates rise to 20%. (Id. at 153.) While Staff believes it is prudent to review the Uncollectible Factor based on experience with the SVT program, Staff does not agree that SVT customers and sales customers should necessarily have different discount rates. (Staff IB, 87-88.)

5. Rider GTA

Ameren argues that it needs Rider GTA. According to its IB, even though it may have some time to adjust its gas purchases before SVT begins, it nevertheless still requires Rider GTA because much uncertainty remains about how much switching will occur when the program begins. (AIC IB, 155-156.) Staff does not believe that Ameren has demonstrated that Rider GTA is needed for the reasons stated in its IB, but agrees that a sunset provision is appropriate as discussed in Staff's IB and in section VIII.A.4.i. of Staff's RB. (Staff IB, 79-80.)

i. Definition of System Weighted Average Cost of Gas

Ameren counters Staff's proposal to use Factor CGC from the Rider PGA with "the weighted average of supply purchases plus related price hedges at the location of the liquidation regardless of which pipeline." (AIC IB, 157.) AIC believes this issue could be resolved in a separate tariff proceeding. (Id.) Staff does not agree to this proposal at this time and concurs that the issue can be resolved in a separate proceeding. (Staff IB, 89.)

6. Rider GSIC

7. Rider PGA

Staff maintains its recommendation that the Commission should not adopt the language AIC proposes be inserted into Rider PGA that requires costs and revenues arising through the application of Rider GTA and Rider GSIC ("New Riders") be on the annual reconciliation statement for Rider PGA.

The example provided in the Ameren IB fails to support its position that the language at issue should be included in Rider PGA, because the example only underscores the obvious: some costs currently recoverable through Rider PGA will instead become recoverable through the New Riders when the SVT program is in place and, when that happens, those costs recovered through the New Riders should be the same amount as what would otherwise have been collected through Rider PGA. (Ameren IB, 159.) The example also fails to provide any insight into why the Company is so insistent that the costs and revenues arising through the application of the New Riders should also be included in the annual reconciliation statement for Rider PGA. This treatment is unnecessary because the costs and revenues associated with each New Rider will be considered in a separate reconciliation. (Staff Ex. 17.0, 4:68-69.)

The Company's statement that "[g]iven the overlapping nature of the costs associated with each of the riders, the Company's references to Rider GTA and GSIC costs (not the reconciliations themselves) in the context of Rider PGA. . ." (Ameren IB, 159) mischaracterizes the language the Company inserted in Rider PGA that Staff proposes be removed. The Company's proposed language is not merely a reference to Rider GTA and GSIC costs, but a requirement that the difference between the costs and revenues arising through the application of the New Riders be part of the certified and verified Rider PGA reconciliation statement. (Staff IB, 90.)

Staff disagrees with the Company's contention that Staff is "unduly fixated on each rider having its own reconciliation" and that the separate reconciliations are beside the point. (Ameren IB, 158.) It is very much on point that the costs and revenues recoverable through the New Riders will be reconciled independently of Rider PGA. As the Riders are currently written, there will be three annual reconciliations, not one. (Staff Ex. 17.0, 4:69-70.) The Company's implication that only through inclusion in the annual Rider PGA reconciliation statement can the costs and revenues associated with the New Riders be properly accounted for is unfounded. (Ameren IB, 159.) Contrary to AIC's implication, the proper over- or under-recovery of costs associated with each of the three riders' reconciliations can and should be determined separately.

The Company has provided no valid reason why the costs and revenues associated with the New Riders should be reflected on the PGA reconciliation statement. Therefore, Staff's proposal to remove the language that the Company inserted in Rider PGA to require such action is appropriate and should be approved by the Commission.

IX. OTHER Proposed Riders and Tariff Changes

A. Resolved Issues

1. QIP-Eligible Projects

2. Implementation of uniform Uncollectible Factor for purposes of administering Rider GUA

B. Contested Issues

X. Other

A. Accepted Recommendations

1. Impact of Divestiture of Merchant Generating Assets in Future Rate Case

2. Reporting Recommendations

i. FERC Form 60 and FERC Audits Provided to Manager of Accounting of Commission

B. Other Issues

1. Company Use of Fuels

Staff did not propose an adjustment. (Staff Ex. 11.0 (Rev.), 16-17:307-347.) AIC used the appropriate direct labor allocation basis in this proceeding. Staff considers this issue to be uncontested and resolved.

XI. CONCLUSION

WHEREFORE, for the reasons set forth in its Initial Brief and this Reply Brief, Staff respectfully requests that the Commission's order in this proceeding reflect all of Staff's recommendations regarding the Company's request for a general increase in gas rates.

Respectfully submitted,

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